STABILIZING THE DOLLAR—DISCUSSION

B. M. Anderson, Jr.—It is, of course, unnecessary in this company to state that I speak only as an individual economist, but for the sake of the record, I wish to make that statement. I should like to propose a constructive suggestion in connection with Professor Fisher's plan. I think it was six years ago that Professor Fisher and I first discussed his plan together at a meeting of the American Economic Association. At that time, I recognized the theoretical feasibility of his plan, but questioned its desirability on practical grounds. In the interval, I have become more sympathetic to the central idea of his plan, and if it were modified in the manner which I have to propose I should be disposed to advocate it, though without this modification I should regard it as dangerous in the extreme.

The modification I propose is that changes in the gold content of the dollar or in the weight of gold bullion in which the paper dollar is to be redeemed should be limited to 2 per cent or 2¼ per cent per annum. This would be adequate, as an examination of index numbers will show, to prevent such long-time swings in the average of commodity prices as took place between 1879 and 1896, or between 1896 and 1913, and so would make the dollar a satisfactory long-time "standard of deferred payments" securing justice as between debtor and creditor in long-time contracts, and freeing the world from uncertainties growing out of variations in the production and consumption of gold. It would, however, leave price levels still subject to those short-time fluctuations which come from variations in the values of goods, particularly those connected with the ups and downs of the business cycle, or with wars. Price changes in war are necessary. And there are other and better methods of dealing with the business cycle.

Not all changes in the average of commodity prices come from variations in the value of money. I think that the long time swings from 1873 (or from 1879 in the United States) to 1896, and from 1896 to 1913, were due primarily to changes in the value of gold. During the earlier period, the production of gold fell off, industrial consumption of gold increased, and new countries tried to extend the use of gold in their currency. From these various causes, gold rose in value, and as a consequence commodity prices tended downward. There were other factors making commodity prices tend downward. Great new agricultural areas were opened up and transportation improved, making agricultural products cheaper, while new manufacturing methods

increased the number of manufactured products and lowered their value, thus accentuating the fall of commodity prices. But the main factor was gold. Reversely, in the second period, there was great increase in the production of gold leading to a decline in its value and leading to a consequent rise in commodity prices. During this period, there were some factors from the goods side making prices rise. The per capita production of meat animals declined markedly in the United States, and some other factors of similar kind were at work. The rise in land prices in the United States was only in part due to a decline in the value of gold. None the less, for the great rise in prices from 1896 to 1913 gold was mainly responsible. During the war, however, the great change has been in the value of goods and not in the value of gold. I should wish to limit Professor Fisher's plan to deal with those changes which come from the side of money and not to throw upon his plan the whole burden of preventing all price changes. I should seek by his plan to keep the value of money constant, and not go with him in the further effort to *vary* the value of money in such a way as to offset variations in the values of goods. For short periods the value of gold is fairly stable. The annual production of gold makes a very moderate addition to the great permanent stock of the world's gold, and the psychological attitude of the world toward gold is such as to give it great stability in value. The belief in the stability of the value of gold tenaciously held by bankers as well as the masses of the people is itself a social institution which operates powerfully toward making gold stable over short periods of time.

To some economists the notion of a value of money as distinguished from the reciprocal of the level of prices is meaningless. To them a change in the level of prices is *ipso facto* a change in the value of money. To them the distinction I have just drawn between changes in the price level caused by changes in the value of money, and changes in the price level caused by changes in the value of goods, will have no significance. Let me, however, urge some practical considerations which must appeal to them as imposing limitations on the possibilities of Professor Fisher's plan, whether they accept the theoretical distinction or not.

Professor Fisher's plan assumes instant redemption in gold. It will work only if the Treasury stands ready at all times to pay out gold in increasing amounts as prices rise. It assumes a gold standard, or at all events gold redemption, and is merely a refinement of that system. Had it been in operation at the beginning of the war, the

Bank of England would now be responsible for nearly two and a half times as much gold for every bank note outstanding as it is now responsible for. The bank's gold holdings could not have stood the strain. Early in the war England would have gone off the gold standard absolutely and entirely, and prices would have risen in England higher than they have risen. Our own Treasury with all our gold would have been subject to great strain. Whether it would have been forced off the gold standard is not certain, but that it would have adopted the policy of suspension of gold payments is certain, and Professor Fisher's plan would consequently have broken down.

This plan, a refinement of the gold standard, and presupposing the gold standard, is too delicate and fragile a barque to navigate such troubled waters as the war has brought about.

Unless the changes under Professor Fisher's plan are limited to very small amounts, the plan would expose the Treasury to the activities of speculators in gold. Professor Fisher has seen this himself, and has proposed a special brassage charge of 1 per cent, which would have been adequate to meet the moderate changes that it was designed to meet in prewar times, but had his plan been in operation during the present war, with prices changing sometimes as much as 7 per cent a month, and rising 100 per cent or more in four years, the raids on the Treasury would have been intolerable. It has been suggested that the "bull" speculator in gold, that is, the man who anticipates a fall in prices and who takes gold from the Treasury expecting later to return it to the Treasury and get back a larger number of dollars, would be handicapped not only by the brassage charge, but also by the loss of interest on the gold bullion through the time that he held it. This is true, and it would tend to limit gold speculation in gold unless anticipated changes were very great. Even so, if such a drastic fall in prices were anticipated as now seem imminent, the "bull" speculator might very well take out gold and keep it six months and return it to the government with a handsome profit. But the case is radically different with the "bear" speculator in gold, that is, the man who, anticipating a great rise in prices, turns gold into the Treasury and takes out money, expecting to return the money later to the government and receive a larger amount of gold. This speculator has a positive advantage in the interest factor. He can take the money and lend it out during the time that he is waiting for the gold content of the dollar to increase, and so make interest as well as a profit on the speculation. It is not possible to protect the Treasury against raids from speculators under Professor Fisher's plan unless the an-

nual changes are greatly limited. If Professor Fisher's plan were applied to war-time conditions and the effort to keep prices stable during the great war, there would be no way of preventing speculative raids on the Treasury's gold reserves.

Some other points: I think we probably all agree that Professor Fisher's plan should not be adopted except by international agreement, in view of the disturbance which it would involve in the international exchanges. The world must look forward to bringing its monetary systems back on a gold basis as soon as possible, and the major countries of the world should concur in any such plan as this before it is adopted.

It is necessary also to consider the price level which is to be chosen as a normal base from which we shall start in adopting Professor Fisher's plan. Professor Fisher suggests the price level of 1916, which is, on the Bureau of Labor Statistics index number, about 23 per cent above the level of 1913, and perhaps some 71 points on the same index below the average level for 1918. In support of this 1916 price level, Professor Fisher urges that 1916 represents about the center of gravity of existing contracts. I am disposed to accept the year 1916 as probably giving about the right base, though not for the reasons that Professor Fisher offers. I think that men who made contracts in 1916, or indeed at any time during the war, did so taking into account prospective changes in prices, and that no injustice has come to them consequently from such price changes. I am interested in Professor Fisher's plan only as eliminating the changes in prices which cannot be easily forecast, which run for long periods of time. I am interested in his plan, in other words, for the sake of making money a good long-time standard of deferred payments. For the short-time periods I am inclined to the view that gold money is now a good standard, that price changes through short periods are not due to variations in the value of gold, but due to the variations in the value of goods.

My reason for being inclined to accept the average of commodity prices for 1916 as a good base is simply that it seems probable that that is about the base to which we will naturally return in the impending post-war decline of commodity prices, and that it will probably be a good many years before we get back to the 1913 basis if we ever do. You will please not understand me as venturing any exact prophecy in this matter. No one, certainly not myself, is competent to make any exact predictions as to what level of prices we may expect to reach. The thing will have to work out experimentally.

In any case, I take it we all agree that the plan should not be adopted at the present level of prices. To do that would simply perpetuate all the injustices which people on fixed incomes, bondholders, salaried men, universities, savings banks, public utilities, laborers in industries repressed by the war, and others, have suffered during the war, while if prices are allowed to come down in natural course, much of this injustice will be automatically cancelled.

Even with the modifications proposed by Professor Fisher's plan, I should still prefer some such plan as regulation of the annual output of gold through government monopoly or through a variable tax on gold production, or something of the sort. This would prevent divergence between the value of gold and the value of money. Professor Fisher's plan has the centre of the stage, however. Very many economists are interested in it and not a few public men. If adopted in the modified form which I suggest, it seems to me that it would represent a very distinct improvement in our monetary system. The modifications proposed are in summary: (1) that it be done by international agreement; (2) that it be done only after prices have gone down to something like a stable normal level; (3) that changes under the plan be limited to 2 per cent or $2\frac{1}{4}$ per cent a year.

One or two comments on certain other points that have been raised this morning. I cannot see how men can so ignore the facts of the past eighteen months as to insist that our high commodity prices are due to bank expansion caused by the government's war finance. The great increase in commodity prices of this country took place by June of 1917, before our heavy government borrowing had got well under way, and the rise since that time has been surprisingly moderate. Moreover, our main bank expansion took place before government borrowing got largely under way. The expansion from June, 1915, to June, 1917, in total bank resources of the United States was something like $10,000,000,000, while in the year that followed it was some three or four billions. It seems especially pointless to fear that further government borrowing is going to expand bank credit unduly, and to raise commodity prices. Further government borrowing will be for liquidation purposes in large measure. The government is cancelling contracts and is borrowing for the purpose of liquidating them. Contractors and sub-contractors will in considerable measure turn over the funds which the government pays them to the banks in reducing their loans at the banks. Meanwhile, it is already in evidence that declining commodity prices are somehow reducing commercial borrowing at the banks, and this process will go much further. My forecast of the future would be something of this sort.

1. Commodity prices are coming down.

2. More slowly and at a later date, the volume of bank credit will decline.

3. More slowly and at a still later date, we shall work out of the country our surplus of gold.

I am quite unable to sympathize with the point of view of those who hold that the whole trouble during the war with the price system has been government borrowing and expanding bank loans. War finance would be beautifully simple if this were the whole story. All we should need to do would be to forbid the bankers to extend credit and the problem would be solved. But the banks have not been the culprits. The Kaiser is the culprit. The wastes and demoralization of war, the withdrawing of sixty millions of men from production and putting them to work at the most destructive kind of consumption, the withdrawal of much larger numbers of laborers from ordinary civilian production to producing goods for the armies to destroy,—these are the causes of war-time prices. I am glad to be able to quote in support of this view the conclusion of Professor Wesley C. Mitchell, of the War Industries Board, who has recently issued his comparison of Civil War and present war prices, with the conclusion that while during the Civil War monetary depreciation was the main factor in high prices, during the present war this is not the case. I quote, "It would be going too far to say that during the present war monetary changes have had no effect upon prices. But certainly they have played no such dominant causative rôle as in 1862-65. On the other hand, interruptions in the supply of commodities, and changes in demand have exercised a much greater influence than they did in the Civil War."[1]

This conclusion, which I have reached on general theoretical grounds together with such study of actual prices as I have been able to make from time to time, Professor Mitchell has reached after a very detailed examination of month to month changes in prices of a large number of commodities during both wars.

The problems of war finance are far more intricate than those who have seen nothing but "inflation" in government borrowing have believed. The great problem of war finance is to provide a financial machinery whereby the industrial resources of a country may be mobilized for war purposes, so as to bring about the restriction of civilian consumption and the restriction of production for civilian use, and to bring about enormous increase in production for war purposes, and

[1] "A Comparison of Prices during the Civil War and Present War," issued by Price Section, Division of Planning and Statistics, War Industries Board, November, 1918, page. 2.

the effective utilization of those products. A drastic reorganization of the industrial system is involved. In the course of this, bankruptcies must be averted and demoralization prevented. As a necessary part of this process, governments must borrow and banks must lend. Taxes must also be applied. But the solution of our problem is advanced very little by such heavy overemphasis as we have had by writers like Professor Nicholson in England on the one element of expanding bank credit connected with government loans.

Hermann F. Arens.—With reference to Professor Fisher's paper, I suggest the following plan: Take the sum of wholesale prices of selected commodities averaged according to their relative importance in trade and use this sum as a standard of value. If the price of these same goods should rise above this amount, bonds might be issued for currency and the proceeds retired from active circulation until its value as measured in commodities rises again to a point which would justify a reissue of this currency.

At the request of a representative of the Chilean government, I submitted such a plan for the stabilizing of the Chilean peso.

Irving Fisher.—To this plan there are two objections: One is that the plan involves placing in the hands of some government official or officials the determination as to when and in what quantity currency shall be issued or withdrawn, and that discretion would be very liable to abuse. The second objection is that it runs contrary to popular prejudice, because all business people are convinced that there must be a gold base for any regulating plan, and they would be afraid to depart entirely from gold. My method is a concession to this prejudice in favor of hard money or a metallic base.

Hermann F. Arens.—I admit the second objection, but, in regard to the first, should say that there might be an arrangement for issuing or retiring currency at a prescribed rate in accordance with the fluctuations of the commodity index, thus taking away from government officials all discretion as to issuing currency or the amount of such issue. This plan I believe to be scientific, though some may contend that it is too radical and might do unnecessary violence to popular prejudice.

Wilford I. King.—Dr. Anderson advances three principal points of criticism of Professor Fisher's proposed plan, each of which points seems, to my mind, to be of doubtful validity. He first contends that

any successful plan of stabilization must be international in its scope. He states that action by our government alone will result in such wide fluctuations in foreign exchange that commerce will be seriously hampered thereby. The obvious answer to this criticism is given by the enormous increase in our foreign trade taking place since 1914, despite the violent fluctuations in foreign exchange. Doubtless fluctuation does make possible speculation in exchange, but such speculation probably paralyzes international trade to about the same degree that dealing in wheat futures prevents commerce in wheat. This argument seems merely to be a subterfuge intended to indefinitely postpone currency stabilization by relegating it to the realm in which any favorable action is highly improbable.

Dr. Anderson next asserts that the proposed adjustments must necessarily be so small that they can, at best, only prevent minor fluctuations, and that they can, therefore, avail nothing in stopping great price movements like those of the last four years. Does it not, however, seem safe to assume that legislation for stabilizing the dollar will be accompanied by measures broad enough to include provisions which will prevent a repetition of such orgies of inflation as have characterized the past four years? But even should such elementary precautions not be taken, is there any reason why adjustments should not be made often enough and large enough to care for changes comparable even to those of the war period just passed?

Dr. Anderson's third contention is that any such large or frequent adjustments will make possible a process of speculation in gold which will enable the speculator always to win at the expense of the federal government. If such a "certain to win and can't possibly lose" system ever comes into being, let us hope that all present will be on hand to participate in the profits. But "sure things" in the speculative field materialize all too rarely and it seems to me very doubtful indeed that even this plan may not develop the same unforeseen defects that have, in the past, proved so unfortunately common in schemes similarly guaranteed to bring universal success. I should personally wish to have the method of such a speculative plan described in very considerable detail before I invested my entire savings in the enterprise.

O. C. Lockhart.—It should be noted that Professor Fisher and Dr. Anderson proceed from radically different points of view in their discussion of the present price level. Dr. Anderson finds the principal cause in the scarcity of goods, while Professor Fisher holds rather to

the view that the enormous expansion of our circulating medium is the primary cause. Hence the difference in their conception of the importance of stabilizing the dollar.

To one who stresses the influence of the scarcity of goods on the present price level, the classical justification of high prices comes naturally. During war it is of course highly important both to stimulate the production of articles needed for war purposes and to secure economy in private consumption. From the point of view of those who regard the currency situation as the chief factor in the price level, however, this justification of high prices cannot be pressed too far without danger of at least appearing to encourage inflation. In point of fact, inflated prices have been acquiesced in, if not urged, in some quarters because of their supposed effect on economy. But it must not be overlooked that the reaction of stimulated production and high cost of living on employment and wages tends to defeat this economy in private consumption.

It is therefore important to hold the rise of prices and wages within moderate limits. Only thus can we avoid the psychological influence of high wages in encouraging lavish expenditure, and only thus can we secure an equitable distribution of articles of necessary consumption among all classes. It seems reasonably clear that the government's laudable effort to avoid disturbance of the money market through the use of the anticipatory certificates of indebtedness was made without clear recognition of its effect upon the circulating medium, and that the taxation policy did not hold in view the need for repressing unnecessary consumption.